

CHICOPEE BANCORP, INC.  
Form 10-K  
March 12, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-51996

CHICOPEE BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Massachusetts  
(State or other jurisdiction of  
incorporation or organization) 20-4840562  
(I.R.S. Employer  
Identification No.)

70 Center Street, Chicopee, Massachusetts  
(Address of principal executive offices) 01013  
(Zip Code)

Registrant's telephone number: (413) 594-6692

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class Name of each exchange on which registered  
Common Stock, no par value NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark whether the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. YES\_\_\_ NO X

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES  NO

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act).

YES \_\_\_ NO

On June 30, 2014, the aggregate market value of the voting and non-voting common equity held by non-affiliates was \$85,587,625

The number of shares of Common Stock outstanding as of March 10, 2015 was 5,270,670.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for our Annual Meeting of Stockholders, to be held on May 27, 2015, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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## PART I

### Item 1. Business.

#### General

Chicopee Bancorp, Inc. (the “Company” or “Chicopee Bancorp”), a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank (the “Bank” or “Chicopee Savings Bank”) to become the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion and the offering were completed on July 19, 2006.

The Bank, a Massachusetts stock savings bank, was organized in 1845 under the name Cabot Savings Bank and adopted its present name in 1854. The Bank is a full-service, community oriented financial institution offering products and services to individuals and businesses through nine offices located in Western Massachusetts. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) and Depositor’s Insurance Fund (“DIF”) of Massachusetts. The Bank is also a member of the Federal Home Loan Bank of Boston (“FHLB”) and is regulated by the FDIC and the Massachusetts Division of Banks. Chicopee Savings Bank’s business consists primarily of making loans to its customers, including residential mortgages, commercial real estate loans, commercial loans, consumer loans and home equity loans, and investing in a variety of investment securities. The Bank funds these lending and investment activities with deposits from the general public, funds generated from operations and borrowings. The Bank also sells residential one-to-four family real estate loans to the secondary market to reduce interest rate risk. The Bank’s revenues are derived from the generation of interest and fees on loans, interest and dividends on investment securities, fees from its retail banking operation, and investment management. The Bank’s primary sources of funds are deposits, principal and interest payments on loans and investments, advances from the FHLB and proceeds from loan sales. The Bank also provides access to insurance and investment products through its Financial Services Division.

#### Available Information

The Company’s website is [www.chicopeesavings.com](http://www.chicopeesavings.com). The Company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Information on the Company’s website shall not be considered part of this Form 10-K.

#### Market Area

Chicopee Savings Bank is headquartered in Chicopee, Massachusetts. The Bank’s primary lending and deposit market areas include Hampden and Hampshire Counties in Western Massachusetts. Chicopee is located at the “Crossroads of New England”, the intersection of Interstate 91 and the Massachusetts Turnpike. Interstate 91 is the major north-south highway and Interstate 90 is the major east-west highway that crosses Massachusetts. The city is also bisected by several secondary highways, which include Routes 391, 116, 33 and 141. These roadways provide good access to major highways and centers of employment. Chicopee is located approximately 90 miles west of Boston, Massachusetts, 80 miles southeast of Albany, New York and 30 miles north of Hartford, Connecticut.

Chicopee is an urban community, which serves as the home of the Westover Air Force Base, which is the nation’s largest Air Force Reserve Base and is a key part of the local economy. More than 2,700 military and civilian workers are assigned to Westover’s 43<sup>rd</sup> Military Airlift Wing. A diversified mix of industry groups also operate within Hampden and Hampshire County, including manufacturing, health care, higher education, whole sale retail trade and

service. The economy of our primary market area has benefited from the presence of large employers such as Baystate Health, Big Y Supermarkets, University of Massachusetts, Mass Mutual Financial Group, Hasbro Games, Peter Pan Bus Lines, Friendly's Ice Cream Corporation, Sisters of Providence Health Systems, Westover Air Force Base, Smith and Wesson, Yankee Candle and Verizon. Other employment and economic activity is provided by financial institutions, nine other colleges and universities, eight other hospitals, and a variety of wholesale and retail trade business. Our market also enjoys a strong tourism business with attractions such as the Eastern States Exposition called the Big E, the largest fair in the northeast, the Basketball Hall of Fame and Six Flags New England.

#### Competition

We face significant competition in attracting deposits and loans. Our most direct competition for deposits has historically come from the several financial institutions and credit unions operating in our market area and, to a lesser extent, from other financial service companies such as brokerage firms and insurance companies. We also face competition for depositors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2014, which is the most recent

date for which data is available from the FDIC, we held approximately 4.87% of the deposits in Hampden County, which was the 8<sup>th</sup> largest market share out of the 19 banks and thrifts with offices in Hampden County. This data does not include deposits held by one of our primary competitors, credit unions, which, as tax-exempt organizations, are able to offer higher rates on deposits than banks. There are 15 credit unions headquartered in Hampden County, some of the larger of which are headquartered in Chicopee, Massachusetts. In addition, banks owned by large super-regional bank holding companies such as Bank of America Corporation, Santander Bank, N.A., Citizens Financial Group, First Niagara Financial Group, Inc., and TD Bank, Inc. also operate in our market area. These institutions are significantly larger than us and, therefore, have greater resources.

Our competition for loans comes primarily from financial institutions in our market areas, and, to a lesser extent, from other financial service providers such as mortgage companies and mortgage brokers. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage market such as insurance companies, securities companies and specialty finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal laws permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our future growth.

#### Lending Activities

General. The Company's loan portfolio totaled \$523.7 million at December 31, 2014 compared to \$489.3 million at December 31, 2013, representing 81.9% and 83.3% of total assets, respectively. In its lending activity, the Company originates one-to-four family real estate loans, commercial real estate loans, residential and commercial construction loans, commercial and industrial loans, home equity lines-of-credit, fixed rate home equity loans and other consumer loans. The Company does not originate loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios. While the Company makes loans throughout Massachusetts, most of its lending activities are concentrated in Hampden and Hampshire counties. Loans originated totaled \$140.5 million in fiscal year 2014 and \$187.6 million in 2013, including residential mortgage loans sold to the secondary market of \$4.7 million and \$26.4 million, respectively. Servicing rights are retained on all loans originated and sold into the secondary market.

Residential Real Estate Loans. At December 31, 2014 and 2013, the residential real estate loan portfolio totaled \$118.7 million and \$112.5 million, or 22.7% and 23.0% of the total loan portfolio, with an average yield of 3.87% and 4.09%, respectively. Residential real estate loans originated totaled \$36.2 million and \$79.3 million in 2014 and 2013, respectively, which includes loans sold to the secondary market of \$4.7 million and \$26.4 million in 2014 and 2013, respectively. Of the residential real estate loans outstanding at December 31, 2014, \$104.3 million, or 87.9%, were adjustable rate loans. Total loans serviced for others as of December 31, 2014 and 2013 were \$91.3 million and \$97.6 million, respectively. Residential real estate loans enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. We offer fixed-rate and adjustable-rate loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of

mortgage loans are determined by the demand for each in a competitive environment.

We offer fixed-rate residential real estate loans secured by one-to-four family residences with terms between 10 and 30 years. Management establishes the loan interest rates based on market conditions. Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that ranges from one to ten years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate typically equal to 3.50 percentage points above the one-year constant maturity Treasury index. The maximum amount by which the interest rate on our adjustable-rate mortgage loans may be increased or decreased is generally 2 percentage points per adjustment period and the lifetime interest rate cap is generally 6 percentage points over the initial interest rate of the loan. We also offer adjustable-rate mortgage loans that adjust every three years after an initial three-year fixed period and adjustable-rate mortgage loans that adjust every five years after an initial six-year fixed period. Interest rates and payments on these adjustable-rate loans generally are adjusted to a rate typically equal to 3.50 percentage points above the three- and five-year constant maturity Treasury index.



The largest owner-occupied residential real estate loan was \$1.7 million and was performing according to its original terms as of December 31, 2014.

All adjustable-rate mortgage loans are underwritten taking the indexed rate into consideration at each adjustment period until the full cap is reached. A Mass Attorney General Important Disclosure (MA Chapter 93A-Determining Affordability of ARM Loans) is completed for each adjustable rate mortgage request, which calculates the overall debt to income based on the initial principal and interest payment along with real estate taxes, insurance, and other monthly payments due from the borrower and also includes the repricing of these payments at each adjustment up to the maximum caps allowed under the note. This process minimizes the risk of qualification at the time the loan reaches the maximum rate for that product.

Adjustable rate mortgage loans help decrease the risk associated with changes in market interest rates by periodically repricing. However, upward adjustment of interest rates is limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents. In addition, adjustable rate mortgage loans may increase credit risk because, as interest rates increase, interest payments on adjustable rate loans increase, which increases the potential for defaults by our borrowers. See "Loan Underwriting Risks" below.

While one-to-four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

We generally do not make conventional loans with loan-to-value ratios exceeding 95% at the time the loan is originated. Conventional loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. We require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We generally require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, and flood insurance for loans on properties located in a flood zone, before closing the loan.

In an effort to provide financing for first-time home buyers, we offer 30-year fixed-rate residential mortgage loans and 10/1 adjustable rate mortgage loans with loan-to-value ratios up to 97%. We offer mortgage loans through this program to qualified individuals and originate the loans using underwriting guidelines as set forth by the Company.

**Commercial Real Estate Loans.** At December 31, 2014 and 2013, commercial real estate loans totaled \$249.6 million and \$211.2 million, or 47.7% and 43.1% of the total loan portfolio, with an average yield of 4.75% and 5.24%, respectively. This yield calculation includes commercial construction and residential investment loan balances and interest income. Commercial real estate loans originated totaled \$66.6 million and \$87.4 million in 2014 and 2013, respectively. Our commercial real estate and residential investment loans are generally secured by apartment buildings and properties used for business purposes such as office buildings, industrial facilities and retail facilities. In addition to originating these loans, we also participate in loans with other financial institutions located primarily in Massachusetts.

We originate a variety of fixed- and adjustable-rate commercial real estate and residential investment loans for terms up to 25 years. Interest rates and payments on our adjustable-rate loans adjust every one to ten years and generally are adjusted to a rate equal to 2.0% to 3.0% above the corresponding U.S. Treasury rate or FHLB rate. Most of our adjustable-rate commercial real estate and residential investment loans adjust every five years. There are no adjustment period or lifetime interest rate caps. Loan amounts generally do not exceed 80% of the property's appraised value at the time the loan is originated.

At December 31, 2014, our largest commercial real estate loan was \$9.1 million and was secured by multiple warehouse/industrial buildings in Westfield, Massachusetts. This loan was performing according to the original terms at December 31, 2014.

At December 31, 2014, our exposure to commercial real estate and commercial business loan participations purchased and sold totaled \$18.2 million and \$19.0 million, respectively. The properties securing these loans are located primarily in Massachusetts.

We also originate land loans primarily to local contractors and developers for making improvements on approved building lots. Such loans are generally written with a maximum 75% loan-to-value ratio based upon the appraised value or purchase price, whichever is less, for a term of up to three years. Interest rates on our land loans are fixed for three years. At December 31, 2014, we had eleven land loans totaling \$480,000.

Construction Loans. At December 31, 2014 and 2013, the Company had \$43.9 million and \$44.6 million of construction loans outstanding, representing 8.4% and 9.2% of the total loan portfolio, with an average yield of 4.12% and 4.47%, respectively. We originate fixed-rate and adjustable-rate loans to individuals and builders to finance the construction of residential dwellings.

We also make construction loans for commercial development projects, including apartment buildings, condominiums, small industrial buildings and retail and office buildings. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually 12 to 36 months. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Loans generally can be made with a maximum loan to value ratio of 80% at the time the loan is originated. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also will require an inspection of the property before disbursement of funds during the term of the construction loan.

At December 31, 2014, our largest outstanding residential construction loan was \$1.1 million, of which \$950,000 was outstanding. At December 31, 2014, our largest outstanding commercial construction loan was \$7.9 million, of which \$7.0 million was outstanding for the development of an office building. These loans were performing in accordance with their original terms at December 31, 2014.

**Commercial and Industrial Loans.** The Company originated \$30.4 million and \$38.2 million in commercial and industrial loans in 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Company had \$74.3 million and \$86.5 million in commercial and industrial loans, representing 14.1% and 17.7% of the total loan portfolio, with an average yield of 3.99% and 4.23%, respectively. We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small businesses. Commercial lending products include term loans, revolving lines of credit and letters of credit loans. Commercial loans and lines of credit are made with either variable or fixed rates of interest. Variable rates are based on the prime rate as published in The Wall Street Journal, plus a margin. Fixed-rate business loans are generally indexed to a corresponding U.S. Treasury rate, plus margin, or FHLB, plus margin. The Company generally does not make unsecured commercial and industrial loans.

When making commercial and industrial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral, primarily accounts receivable, inventory and equipment, and are supported by personal guarantees. Depending on the collateral used to secure the loans, commercial loans are made in amounts of up to 80% of the value of the collateral securing the loan. The collateral securing commercial and industrial loans may depreciate over time, may be difficult to appraise and may fluctuate in value. See "-Loan Underwriting Risks" below.

At December 31, 2014, our largest commercial term loan was a \$2.0 million loan secured by real estate located in East Longmeadow, Massachusetts, including all assets of the borrower. The loan was performing according to its original terms at December 31, 2014. Our largest lending exposure was a \$14.4 million commercial lending relationship, of which \$11.7 million was outstanding at December 31, 2014. The relationship consists of three separate entities each providing independent cash flow and were secured by the assets of the borrower, including all assets and commercial real estate. The loans were performing in accordance with their original terms at December 31, 2014.

**Consumer Loans.** The Company originated \$12.1 million and \$8.9 million of consumer loans, including home equity loans, in 2014 and 2013, respectively. At December 31, 2014 and 2013, consumer loans outstanding totaled \$37.2 million and \$34.5 million, or 7.1% and 7.0% of the total loan portfolio, with an average yield of 3.67% and 3.82%, respectively. We offer a variety of consumer loans, primarily home equity loans and lines of credit, and, to a much lesser extent, loans secured by automobiles, recreational vehicles, pools and spas and home improvement loans.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

We generally offer home equity loans with a maximum combined loan to value ratio of 80% and home equity lines of credit with a maximum combined loan to value ratio of 80%. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as reported in The Wall Street Journal. Home equity loans have fixed interest rates and terms that range from five to twenty years.

We offer automobile and recreational vehicle loans secured by new and used vehicles. These loans have fixed interest rates and generally have terms up to six years for new automobiles, five years for used automobiles and four years for recreational vehicles. We also offer fixed-rate pool and spa loans up to \$10,000 for terms up to five years.

#### Loan Underwriting Risks

Adjustable-Rate Loans. While we anticipate adjustable-rate loans will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan

borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

**Residential Real Estate.** The Company's primary residential real estate lending market areas include Hampden and Hampshire Counties in Western Massachusetts. If real estate prices decline, the value of real estate collateral securing our loans will be reduced. Our ability to recover defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to incur financial losses on defaulted loans. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws, regulations and acts of nature. Residential real estate loans are dependent on the borrower's continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. In addition, the application of various federal and state laws, including foreclosure, bankruptcy and insolvency laws may limit the amount that can be recovered on such loans.

**Commercial Real Estate.** Loans secured by commercial real estate and residential investment real estate generally have larger balances and involve a greater degree of risk than one-to four-family residential mortgage loans. Of primary concern in commercial real estate and residential investment lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we generally require borrowers and loan guarantors, if any, to provide annual financial statements and/or tax returns on commercial real estate and residential investment loans. In reaching a decision on whether to make a commercial real estate and residential investment loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x; however, this ratio can be lower depending on the amount and type of collateral. Environmental surveys and inspections are obtained when circumstances suggest the possibility of the presence of hazardous materials.

We underwrite all loan participations to our own underwriting standards. In addition, we also consider the financial strength and reputation of the lead lender. To monitor cash flows on loan participations, we require the lead lender to provide annual financial statements for the borrower. Generally, we also conduct an annual internal loan review for loan participations.

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

**Commercial and Industrial Loans.** Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real

property the value of which tends to be more easily ascertainable, commercial and industrial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

**Consumer Loans.** Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

**Loan Originations, Purchases, and Sales.** Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising and referrals from customers. We advertise on television, on

the radio and in newspapers that are widely circulated in Hampden and Hampshire Counties, both in Massachusetts. Accordingly, because our rates are competitive, we attract loans from throughout Hampden and Hampshire Counties. We occasionally purchase participation interests in loans to supplement our origination efforts.

We generally originate loans for our portfolio; however, we generally sell, prior to funding, to the secondary market all newly originated conforming fixed-rate, 10- to 30-year one-to-four-family residential real estate loans. Our decision to sell loans is based on prevailing market interest rate conditions and interest rate risk management. Generally, loans are sold to Freddie Mac with loan servicing retained. In addition, we sell participation interests in commercial real estate loans to local financial institutions, primarily on the portion of loans that exceed our borrowing limits.

**Loan Approval Procedures and Authority.** Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our Board of Directors and management. Our Board of Directors has granted loan approval authority to certain officers up to prescribed limits, depending on the officer's experience, the type of loan and whether the loan is secured or unsecured. Loans in excess of the Senior Lending Officer limits (\$500,000 for real estate loans, secured consumer loans, and secured and unsecured commercial loans; and \$100,000 for unsecured consumer loans.) must be authorized by the President and the Executive Vice President of Lending up to 1.5 times the Senior Lending Officer lending limits. All other extensions of credit exceeding such limitations require the approval of the executive committee, a committee of the Board of Directors of the Bank.

**Loans to One Borrower.** The maximum amount that we may lend to one borrower and the borrower's related entities generally is limited, by statute, to 20% of our stated capital and reserves. At December 31, 2014, our general regulatory limit on loans to one borrower was \$15.7 million. At December 31, 2014, our internal lending limit to one borrower was \$8.0 million, unless approved in excess of this amount by the executive committee of the Board of Directors. Our largest lending exposure was a \$14.4 million commercial lending relationship, of which \$11.7 million was outstanding at December 31, 2014. The relationship consists of three separate entities each providing independent cash flow and were secured by the assets of the borrower, including all assets and commercial real estate. The loans were performing in accordance with their original terms at December 31, 2014.

**Loan Commitments.** We issue commitments for fixed- and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our mortgage loan commitments expire after 30 days.

#### Investment Activities

We have legal authority to invest in various types of liquid assets, including marketable equity securities, U.S. Treasury obligations, securities of various government sponsored enterprises and municipal governments, deposits at the FHLB and certificates of deposit of federally insured institutions. We are also required to maintain an investment in FHLB stock. While we have the authority under applicable law to invest in derivative securities, our investment policy does not permit us to do so and we had no investments in derivative securities at December 31, 2014.

At December 31, 2014, our investment portfolio consisted primarily of tax-exempt industrial revenue bonds, and to a lesser extent, certificates of deposit, collateralized mortgage obligations, and investment-grade marketable equity securities.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. The Board of Directors of the Bank has the overall responsibility for approval of our investment policy. The Treasurer is responsible for the implementation of the investment policy. Individual investment

transactions are reviewed and approved by our executive committee monthly while portfolio composition and performance are reviewed at least annually by the Board of Directors of the Bank.

Our Chief Financial Officer and Treasurer is responsible for ensuring that the investment policy is followed and that all securities are considered prudent for investment.

#### Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposits. Substantially all of our depositors are residents of the Commonwealth of Massachusetts. Deposits are attracted, by advertising and through our website, from within our market areas through the offering of a broad selection of deposit instruments, including non-interest-bearing demand accounts (such as checking accounts), interest-bearing accounts (such as NOW and money



market deposit accounts), regular savings accounts (such as passbook accounts) and certificates of deposit. At December 31, 2014, we did not utilize brokered deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates and price the deposit products depending on our needs for funds and rates on borrowings. Deposit accounts at the Bank are insured by the Deposit Insurance Fund of the FDIC, generally up to a maximum of \$250,000 for each separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. In addition, as a Massachusetts-chartered savings bank, Chicopee Savings Bank is required to be a member of DIF, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The combination of FDIC and DIF insurance provides customers of Massachusetts-chartered savings banks with full deposit insurance on all their deposits.

**Borrowed Funds.** We may utilize advances from the FHLB to supplement our supply of investable funds. The FHLB functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLB and are authorized to apply for advances on the security of such stock and certain of our whole first real estate loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

Securities sold under agreements to repurchase are customer deposits that are invested overnight in U.S. Treasury securities. The customers, predominantly commercial customers, set a predetermined balance and deposits in excess of that amount are transferred into the repurchase account from each customer's checking account. These types of accounts are often referred to as sweep accounts.

#### Financial Services

We have a partnership with a third-party registered broker-dealer, Linsco/Private Ledger ("LPL"). Through LPL, we offer customers a range of non-deposit investment products, including mutual funds, debt, equity and government securities, retirement accounts, insurance products and fixed and variable annuities. We receive a portion of the commissions generated by LPL from sales to customers. For the years ended December 31, 2014, 2013 and 2012, we received fees of \$374,000, \$320,000 and \$312,000, respectively, through our relationship with LPL.

#### Subsidiary Activities

Chicopee Bancorp, Inc. conducts its principal business activities through its two wholly-owned subsidiaries: Chicopee Savings Bank and Chicopee Funding Corporation.

**Chicopee Funding Corporation.** Chicopee Funding Corporation was incorporated in Massachusetts in 2006. Chicopee Bancorp, Inc. contributed funds to Chicopee Funding Corporation to enable it to make a 20-year loan to the employee stock ownership plan to allow it to purchase shares of the Company's common stock as part of the initial public offering. The Employee Stock Ownership Plan purchased 595,149 shares in the initial public offering, or 8% of the 7,439,368 shares issued in connection with the Bank's mutual-to-stock conversion.

The following are descriptions of Chicopee Savings Bank's wholly-owned subsidiaries:

CSB Colts, Inc. CSB Colts, Inc. was formed in 2003 as a Massachusetts corporation to engage in buying, selling and holding securities on its own behalf. At December 31, 2014, CSB Colts had total assets of \$33.5 million consisting primarily of tax-exempt industrial revenue bonds. CSB Colts' net income for the year ended December 31, 2014 was \$1.5 million. As a Massachusetts securities corporation, the income earned on CSB Colts' investment securities is subject to a lower state tax rate than that assessed on income earned on investment securities maintained at Chicopee Savings Bank.

CSB Investment Corp. CSB Investment Corp. was formed in 2003 as a Massachusetts corporation to engage in buying, selling and holding securities on its own behalf. At December 31, 2014, CSB Investment had total assets of \$679,000 consisting primarily of collateralized mortgage obligations and marketable equity securities. CSB Investment's net income for the year ended December 31, 2014 was \$59,000. As a Massachusetts securities corporation, the income earned on CSB Investment's investment securities is subject to a lower state tax rate than that assessed on income earned on investment securities maintained at Chicopee Savings Bank.

Cabot Realty L.L.C. Cabot Realty L.L.C. was formed as a Massachusetts limited liability company to hold other real estate owned (“OREO”). At December 31, 2014, Cabot Realty had total assets of \$1.7 million consisting primarily of cash and cash equivalents of \$535,000 and OREO of \$1.1 million. Cabot Realty’s net loss for the year ended December 31, 2014 was \$205,000. Cabot Management Corporation, a wholly owned subsidiary of Chicopee Savings Bank, has a 1% membership interest in, and Chicopee Savings Bank has a 99% membership interest in, Cabot Realty.

Cabot Management Corporation. Cabot Management Corporation was formed in 1979 as a Massachusetts corporation to acquire and manage interests in real property and to acquire, construct, rehabilitate, lease, finance and dispose of housing facilities. Cabot Management is currently inactive and at December 31, 2014 had total assets of \$17,000.

#### Personnel

As of December 31, 2014, we had approximately 108 full-time employees and 22 part-time employees, none of whom is represented by a collective bargaining unit. We believe we have a good relationship with our employees.

#### Regulation and Supervision

##### General

Chicopee Savings Bank is a Massachusetts-chartered savings bank and the wholly-owned subsidiary of Chicopee Bancorp, a Massachusetts corporation. Chicopee Savings Bank’s deposits are insured up to applicable limits by the FDIC, and by the DIF for amounts in excess of the FDIC insurance limits. Chicopee Savings Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks, as its chartering agency, and by the FDIC, its primary federal regulator and deposit insurer. Chicopee Savings Bank is required to file reports with, and is periodically examined by, the FDIC and the Massachusetts Commissioner of Banks concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. As a registered bank holding company, Chicopee Bancorp is regulated by the Board of Governors of the Federal Reserve System, or the “Federal Reserve Board.”

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance funds, rather than for the protection of stockholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Massachusetts legislature, the Massachusetts Commissioner of Banks, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the financial condition and results of operations of Chicopee Bancorp and Chicopee Savings Bank. As is further described below, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), has significantly changed the bank regulatory structure and may affect the lending, investment and general operating activities of depository institutions and their holding companies.

Set forth below is a summary of certain material statutory and regulatory requirements that are applicable to Chicopee Savings Bank and Chicopee Bancorp. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Chicopee Savings Bank and Chicopee Bancorp.

##### The Dodd-Frank Act

The Dodd-Frank Act has significantly changed the bank regulatory structure and is affecting the lending and investment activities and general operations of depository institutions and their holding companies.

The Dodd-Frank Act required the Federal Reserve Board to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than \$15 billion of assets. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect on July 21, 2010, and directed the federal banking regulators to implement new leverage and capital requirements within 18 months of that date. The revised capital regulations are effective January 1, 2015.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with extensive powers to implement and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings associations, among other things, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings associations with more than \$10 billion in assets. Banks and savings associations with \$10 billion or less in assets will continue to be examined for compliance with federal consumer protection and fair lending laws by their applicable primary federal bank regulators.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based on the average consolidated total assets less tangible equity capital of an insured institution instead of deposits. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and provided non-interest bearing transaction accounts with unlimited deposit insurance through December 31, 2012.

The Dodd-Frank Act requires companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act made many other changes in banking regulation. These include authorizing depository institutions, for the first time, to pay interest on business checking accounts, mandating that regulation be issued requiring originators of securitized loans to retain a percentage of the risk for transferred loans and establishing regulatory rate-setting for certain debit card interchange fees and establishing a number of reforms for mortgage originations.

In addition, the Consumer Financial Protection Bureau issued a rule implementing the “Ability to Pay” requirements of the Dodd-Frank Act. The regulations generally require lenders to make a reasonable, good faith determination as to a potential borrower’s ability to repay a residential mortgage loan. The final rule establishes a safe harbor for certain “Qualified Mortgages,” which contain certain features and terms deemed to make the loan less risky. The Ability to Repay final rules were effective January 10, 2014.

Many of the provisions of the Dodd-Frank Act were subject to delayed effective dates and the legislation required various federal agencies to promulgate numerous and extensive implementing regulations over a period of years. It is therefore difficult to predict at this time what the full impact the new legislation and implementing regulations will have on community banks such as Chicopee Savings Bank. Although the substance and scope of many of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau, may increase operating and compliance costs.

#### Massachusetts Banking Laws and Supervision

General. As a Massachusetts-chartered stock savings bank, Chicopee Savings Bank is subject to supervision, regulation and examination by the Massachusetts Commissioner of Banks and to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, Chicopee Savings Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Massachusetts Commissioner of Banks and/or the Massachusetts Board of Bank Incorporation is required for a Massachusetts-chartered bank to establish or close branches, merge with other financial institutions, issue stock and undertake certain other activities.

Massachusetts regulations generally allow Massachusetts banks to, with appropriate regulatory approvals, engage in activities permissible for federally chartered banks or banks chartered by another state. The Commissioner also has adopted procedures reducing regulatory burdens and expense and expediting branching by well-capitalized and well-managed banks.

New Massachusetts banking legislation, “An Act Modernizing the Banking Laws and Enhancing the Competitiveness of State-Chartered Banks,” was signed into law in January 2015 and is effective April 2015. Among other things, the legislation attempts to better synchronize Massachusetts laws with federal requirements in the same area, streamlines the process for an institution to engage in activities permissible for federally chartered and out of state institutions, consolidates corporate governance statutes and provides authority for the Commissioner to establish a tiered supervisory system for Massachusetts-chartered institutions based on factors such as asset size, capital level, balance sheet composition, examination rating, compliance and other factors deemed appropriate.

Dividends. A Massachusetts stock bank may declare cash dividends from net profits not more frequently than quarterly. Non-cash dividends may be declared at any time. No dividends may be declared, credited or paid if the bank's capital stock is impaired. The approval of the Massachusetts Commissioner of Banks is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. Dividends from The Company may depend, in part, upon receipt of dividends from Chicopee Savings Bank. The payment of dividends from Chicopee Savings Bank would be restricted by federal law if the payment of such dividends resulted in Chicopee Savings Bank failing to meet regulatory capital requirements.

For the years ended December 31, 2014, 2013 and 2012, a total of \$5.0 million, \$2.5 million and \$1.6 million, respectively, in dividends were declared from the Bank to the Company. During 2014, 2013 and 2012, a total of \$700,000, \$660,000 and \$2.0 million, respectively, in dividends were declared from Chicopee Funding Corporation ("CFC") to the Company, respectively.

For the years ended December 31, 2014 and 2013, a total of \$1.4 million and \$1.0 million, respectively, in cash dividends were paid to the Company's stockholders. The Company did not pay any dividend to shareholders during the year ended December 31, 2012. The first quarterly dividend declared by the Company was announced on January 24, 2013.

Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations to one borrower may not exceed 20 percent of the total of the bank's capital, surplus and undivided profits.

Loans to a Bank's Insiders. Massachusetts banking laws prohibit any executive officer or director of a savings bank from borrowing or guaranteeing extensions of credit by such savings bank except for any of the following loans or extensions of credit with the approval of a majority of the Board of Directors: (i) loans or extensions of credit, secured or unsecured, to an officer of the savings bank in an amount not exceeding \$100,000; (ii) loans or extensions of credit intended or secured for educational purposes to an officer of the bank in an amount not exceeding \$200,000; (iii) loans or extensions of credit secured by a mortgage on residential real estate to be occupied in whole or in part by the officer to whom the loan or extension of credit is made, in an amount not exceeding \$750,000; and (iv) loans or extensions of credit to a director of the savings bank who is not also an officer of the savings bank in an amount permissible under the savings bank's loan to one borrower limit. No such loan or extension of credit may be granted with an interest rate or other terms that are preferential in comparison to loans granted to persons not affiliated with the savings bank. The recent Massachusetts legislation provides that, beginning in April 2015, Massachusetts law incorporates federal regulations governing extensions of credit to insiders, and the separate Massachusetts requirements are regarding such extensions of credit are repealed.

Investment Activities. In general, Massachusetts-chartered savings banks may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4% of the bank's deposits. Federal law imposes additional restrictions on Chicopee Savings Bank's investment activities. See "-Federal Regulations-Business and Investment Activities."

Regulatory Enforcement Authority. Any Massachusetts savings bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be subject to sanctions for non-compliance, including revocation of its charter. The Massachusetts Commissioner of Banks may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the bank's business in an unsafe or unsound manner or contrary to the depositors interests or been negligent in the performance of their duties. Upon finding that a bank has engaged in an unfair or deceptive act or practice, the Massachusetts Commissioner of Banks may issue an order to cease and desist and impose a fine on the bank concerned. The Commissioner also has authority to take possession of a bank and appoint a liquidating agent under certain conditions such as an unsafe and

unsound condition to transact business, the conduct of business in an unsafe or unauthorized manner of impaired capital. In addition, Massachusetts consumer protection and civil rights statutes applicable to Chicopee Savings Bank permit private individual and class action law suits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

**Depositors Insurance Fund.** All Massachusetts-chartered savings banks are required to be members of the DIF, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The DIF is authorized to charge savings banks an annual assessment fee on deposit balances in excess of amounts insured by the FDIC.

Assessment rates are based on the institution's risk category, similar to the method currently used to determine assessments by the FDIC discussed below under "-Federal Regulations-Insurance of Deposit Accounts."

**Protection of Personal Information.** Massachusetts has adopted regulatory requirements intended to protect personal information. These requirements, which became effective March 1, 2010, are similar to existing federal laws such as the Gramm-



Leach-Bliley Act, discussed below under “-Federal Regulations-Privacy Regulations”, that require organizations to establish written information security programs to prevent identity theft. The Massachusetts regulation also contains technology system requirements, especially for the encryption of personal information sent over wireless or public networks or stored on portable devices.

Massachusetts has other statutes or regulations that are similar to certain of the federal provisions discussed below.  
Federal Regulations

**Capital Requirements.** Under the FDIC’s regulations, federally insured state-chartered banks that are not members of the Federal Reserve System (“state non-member banks”), such as Chicopee Savings Bank, are required to comply with minimum leverage capital requirements. During 2014, for an institution not anticipating or experiencing significant growth and deemed by the FDIC to be, in general, a strong banking organization rated composite 1 under Uniform Financial Institutions Ranking System, the minimum capital leverage requirement was a ratio of Tier 1 capital to total assets of 3.0%. For all other institutions, the minimum leverage capital ratio was not less than 4.0%. Tier 1 capital is the sum of common stockholder’s equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

FDIC regulations also require state non-member banks to maintain certain ratios of regulatory capital to regulatory risk-weighted assets, or “risk-based capital ratios.” Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0.0% to 100.0%. During 2014, state non-member banks were required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock, subordinated debentures and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution’s Tier 1 capital.

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule to revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a uniform leverage ratio requirement of 4% of total assets, provides for a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization’s capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule also implements the Dodd-Frank Act’s directive to apply to bank and savings and loan holding companies consolidated capital requirements that are not less stringent than those applicable to their subsidiary institutions. The final rule became effective January 1, 2015. The “capital conservation buffer” will be phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

**Prompt Corrective Regulatory Action.** Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The FDIC has adopted regulations to implement the prompt corrective action legislation. During 2014, an institution was deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater. An institution was “adequately capitalized” if it

has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater. An institution was “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%. An institution was deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

“Undercapitalized” banks must adhere to growth, capital distribution (including dividend) and other limitations and are

required to submit a capital restoration plan. A bank's compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional measures, including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status. In connection with the final capital rule described earlier, the federal banking agencies have adopted revisions to the prompt corrective action framework, effective January 1, 2015. Under the revised prompt corrective action requirements, insured depository institutions would be required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of at least 6.5%; (2) a Tier 1 risk-based capital ratio of at least 8% (increased from 6%); (3) a total risk-based capital ratio of at least 10% (unchanged) and (4) a Tier 1 leverage ratio of 5% or greater (unchanged).

**Standards for Safety and Soundness.** As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and, more recently, safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

**Business and Investment Activities.** Under federal law, all state-chartered FDIC-insured banks, including savings banks, have been limited in their activities as principal and in their equity investments to the type and the amount authorized for national banks, notwithstanding state law. Federal law permits exceptions to these limitations. For example, certain state-chartered savings banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. The maximum permissible investment is the lesser of 100.0% of Tier 1 capital or the maximum amount permitted by Massachusetts law. Chicopee Savings Bank received approval from the FDIC to retain and acquire such equity instruments up to the specified limits. Any such grandfathered authority may be terminated upon the FDIC's determination that such investments pose a safety and soundness risk or upon the occurrence of certain events such as the savings bank's conversion to a different charter. The FDIC is also authorized to permit state banks to engage in state authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if they meet all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the FDIC insurance fund. The FDIC has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specified that a state bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary," if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

**Transactions with Affiliates.** Transactions between a bank (and, generally, its subsidiaries) and its related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B of the Federal Reserve Act limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of such institution's capital stock and

surplus and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution's capital stock and surplus. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions. In addition, loans or other extensions of credit by the institution to the affiliate are required to be collateralized in accordance with specified requirements. The law also requires that affiliate transactions be on terms and conditions that are substantially the same, or at least as favorable to the institution, as those provided to non-affiliates.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. The law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws, assuming such loans are also permitted under the law of the institution's chartering state. Under such laws, a bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is restricted. The law limits both the individual and aggregate amount of loans that may be made to insiders based, in part, on the

bank's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further limited to loans of specific types and amounts.

**Enforcement.** The FDIC has extensive enforcement authority over insured state savings banks, including Chicopee Savings Bank. That enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC also has authority under federal law to appoint a conservator or receiver for an insured bank under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized."

**Federal Insurance of Deposit Accounts.** Deposit accounts in Chicopee Savings Bank are insured by the FDIC's Deposit Insurance Fund, generally up to a maximum of \$250,000 per separately insured depositor, pursuant to changes made permanent by the Dodd-Frank Act. The FDIC assesses insured depository institutions to maintain the Deposit Insurance Fund. No institution may pay a dividend if in default of its deposit insurance assessment.

Under the FDIC's risk-based assessment system, insured institutions are assigned to a risk category based on supervisory evaluations, regulatory capital levels and other risk-based factors. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by the FDIC, with less risky institutions paying lower assessments. On February 7, 2011, as required by the Dodd-Frank Act, the FDIC published a final rule to revise the deposit insurance assessment system. The rule, which took effect April 1, 2011, changes the assessment base used for calculating deposit insurance assessments from deposits to total assets less tangible (Tier 1) capital. Since the new base is larger than the previous base, the FDIC also lowered assessment rates so that the rule would not significantly alter the total amount of revenue collected from the industry. The range of adjusted assessment rates is now 2.5 to 45 basis points of the new assessment base.

In addition to FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, through the FDIC, assessments for costs related to bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. During the year ended December 31, 2014, Chicopee Savings Bank paid \$31,000 in fees related to the FICO. The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a long range fund ratio of 2%.

A material increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Chicopee Savings Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of Chicopee Savings Bank's deposit insurance.

As a Massachusetts-chartered savings bank, Chicopee Savings Bank is also required to be a member of the Depositors Insurance Fund, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. See "Massachusetts Banking Laws and Supervision-Depositors Insurance Fund," above.

**Community Reinvestment Act.** Under the Community Reinvestment Act ("CRA"), a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of

products and services that it believes are best suited to its particular community. The CRA does require the FDIC, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to establish or acquire branches and merger with other depository institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Chicopee Savings Bank's latest FDIC CRA rating was "outstanding."

Massachusetts has its own statutory counterpart to the CRA which is also applicable to Chicopee Savings Bank. The Massachusetts version is generally similar to the CRA but utilizes a five-tiered descriptive rating system. The Massachusetts Commissioner of Banks is required to consider a bank's record of performance under the Massachusetts law in considering any application by the bank to establish a branch or other deposit-taking facility, relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. Chicopee Savings Bank's most recent rating under Massachusetts law was "outstanding."

Federal Reserve System. The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations currently provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including \$103.6 million; a 10% reserve ratio is applied above \$103.6 million. The first \$14.5 million of otherwise reservable balances are exempted from the reserve requirements. The amounts are adjusted annually. Chicopee Savings Bank complies with the foregoing requirements.

Federal Home Loan Bank System. Chicopee Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLB, Chicopee Savings Bank is required to acquire and hold shares of capital stock in the FHLB. As of December 31, 2014 and 2013, Chicopee Savings Bank was in compliance with this requirement with an investment in stock of the FHLB of \$3.9 million.

For the years ended December 31, 2014 and 2013, the Company received \$58,000, and \$15,000 in dividend income from its FHLB stock investment, respectively.

#### Other Regulations

Some interest and other charges collected or contracted for by Chicopee Savings Bank are subject to state usury laws and federal laws concerning interest rates. Chicopee Savings Bank's operations are also subject to state and federal laws applicable to credit transactions and other operations, including but not limited to, the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
  - Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one-to-four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
  - Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
  - Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
  - Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and
  - Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies.
- The operations of Chicopee Savings Bank also are subject to the:
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
  - Electronic Funds Transfer Act and Regulation E promulgated thereunder, that govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
  - Gramm-Leach-Bliley Act privacy statute which requires each depository institution to disclose its privacy policy, identify parties with whom certain nonpublic customer information is shared and provide customers with certain rights to "opt out" of disclosure to certain third parties; and





Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the “USA PATRIOT Act”), which significantly expanded the responsibilities of financial institutions, in preventing the use of the United States financial system to fund terrorist activities. Among other things, the USA PATRIOT Act and the related regulations requires banks operating in the United States to develop anti-money laundering compliance programs, due diligence policies and controls to facilitate the detection and reporting of money laundering.

#### Holding Company Regulation

Chicopee Bancorp, as a bank holding company, is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. Chicopee Bancorp is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for Chicopee Bancorp to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company.

A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing securities brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property under certain conditions; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings association.

The Gramm-Leach-Bliley Act of 1999 authorizes a bank holding company that meets specified conditions, including depository institutions subsidiaries that are “well capitalized” and “well managed,” to opt to become a “financial holding company.” A “financial holding company” may engage in a broader array of financial activities than permitted a typical bank holding company. Such activities can include insurance underwriting and investment banking. Chicopee Bancorp does not anticipate opting for “financial holding company” status at this time.

Chicopee Bancorp is subject to the Federal Reserve Board’s consolidated capital adequacy guidelines for bank holding companies. Traditionally, those guidelines have been structured similarly to the regulatory capital requirements for the subsidiary depository institutions, but were somewhat more lenient. For example, the holding company capital requirements allowed inclusion of certain instruments in Tier 1 capital that were not includable at the institution level. As previously noted, the Dodd-Frank Act directs the Federal Reserve Board to issue consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks apply to bank holding companies (with greater than \$500 million of assets) as of January 1, 2015. As is the case with institutions themselves, the capital conservation buffer will be phased in between 2016 and 2019.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company’s consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. The Federal Reserve Board has adopted an exception to that approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid

only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends' previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing

financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Chicopee Bancorp, Inc. to pay dividends, repurchase shares of its stock or otherwise engage in capital distributions.

The Federal Deposit Insurance Act, makes depository institutions liable to the FDIC for losses suffered or anticipated by the insurance fund in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. That law would have potential applicability if Chicopee Bancorp ever held as a separate subsidiary a depository institution in addition to Chicopee Savings Bank. Chicopee Bancorp and Chicopee Savings Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of Chicopee Bancorp or Chicopee Savings Bank.

The status of Chicopee Bancorp as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

**Change in Control Regulations.** Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as Chicopee Bancorp, Inc. unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution's directors, or a determination by the regulator that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as will be the case with Chicopee Bancorp, Inc., the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

**Massachusetts Holding Company Regulation.** Under Massachusetts banking laws, a company owning or controlling two or more banking institutions, including a savings bank, is regulated as a bank holding company. Each Massachusetts bank holding company: (i) must obtain the approval of the Massachusetts Board of Bank Incorporation before engaging in certain transactions, such as the acquisition of more than 5% of the voting stock of another banking institution; (ii) must register, and file reports, with the Massachusetts Division of Banks; and (iii) is subject to examination by the Division of Banks. Chicopee Bancorp would become a Massachusetts bank holding company if it acquires a second banking institution and holds and operates it separately from Chicopee Savings Bank.

#### Federal Securities Laws

Chicopee Bancorp's common stock is registered with the Securities and Exchange Commission. Chicopee Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

#### Executive Officers of the Registrant

Name	Principal Position
William J. Wagner	President and Chief Executive Officer of Chicopee Bancorp and Chicopee Savings Bank
Guida R. Sajdak	Senior Vice President, Chief Financial Officer and Treasurer of Chicopee Bancorp and Senior Vice President and Treasurer of Chicopee Savings Bank
Russell J. Omer	Executive Vice President of Chicopee Bancorp and Executive Vice President, Lending, of Chicopee Savings Bank

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Below is information regarding our executive officers who are not also Directors. Unless otherwise stated, each executive officer has held his or her position for at least the last five years. Ages presented are as of December 31, 2014.

Russell J. Omer has served as Executive Vice President of Chicopee Bancorp since December 2008, and Senior Vice President of Chicopee Bancorp since 2006, and Senior Vice President, Lending, since 1998. Age 64.

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Guida R. Sajdak was appointed Senior Vice President, Chief Financial Officer and Treasurer of the Company and Bank effective July 1, 2010. Ms. Sajdak has been employed by the Bank since 1989. Prior to her most recent appointment, Ms. Sajdak held the title of Senior Vice President of Finance. Age 41.

#### Item 1A. Risk Factors.

Our increased emphasis on commercial real estate and commercial business lending may expose us to increased lending risks. At December 31, 2014, our loan portfolio included \$249.6 million of commercial real estate loans, or 47.7% of total loans, and \$74.3 million of commercial business loans, or 14.1% of total loans. We have grown the commercial loan portfolio in recent years and intend to continue to grow commercial real estate and commercial loans. These types of loans generally expose a lender to greater risk of non-payment and loss than one-to-four-family residential real estate loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four-family residential real estate loans. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, since such loans generally entail greater risk than one-to-four-family residential real estate loans, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable credit losses associated with the growth of such loans. Also, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four-family residential mortgage loan.

Our low return on equity may negatively affect our stock price. Net income divided by average equity, known as "return on equity," is a ratio many investors use to compare the performance of a financial institution to its peers. Our return on equity was reduced due to the large amount of capital that we raised in our 2006 stock offering and to expenses we will incur in pursuing our growth strategies, the costs of being a public company and added expenses associated with our employee stock ownership plan and equity incentive plan. Until we can increase our net interest income, non-interest income and decrease our non-interest expenses, we expect our return on equity to be below that of our peers, which may negatively affect the value of our common stock. For the year ended December 31, 2014, we reported a negative return on average equity of (0.64)%.

Negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results. Since the latter half of 2007, negative developments in the global credit and securitization markets have resulted in uncertainty in the financial markets and a general economic downturn which has continued into 2014. The economic downturn was accompanied by deteriorated loan portfolio quality at many institutions, including Chicopee Savings Bank. In addition, the value of real estate collateral supporting many home mortgages has declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. These negative developments along with the turmoil and uncertainties that have accompanied them have heavily influenced the formulation and enactment of the Dodd-Frank Act, along with its implications as described elsewhere in this "Risk Factors" section. In addition to the many future implementing rules and regulations of the Dodd-Frank Act, the potential exists for other new federal or state laws and regulations regarding lending and funding practices and liquidity standards to be enacted. Bank regulatory agencies are expected to continue to be active in responding to concerns and trends identified in examinations. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by increasing our costs, restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value

of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

A downturn in the local economy or a decline in real estate values could decrease our profits. Nearly all of our real estate loans are secured by real estate in Hampden County. As a result of this concentration, a downturn in the local economy could cause significant increases in non-performing loans, which would decrease our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. A continued decline in real estate values could cause some of our real estate loans to become inadequately collateralized, which would expose us to a greater risk of loss. In addition, because we have a significant amount of commercial real estate loans, decreases in tenant occupancy may also have a negative effect on the ability of many of our borrowers to make timely repayments on their loans, which would have an adverse impact on our earnings.

We could be held responsible for environmental liabilities of properties we acquired through foreclosure. In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense.

The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

We are subject to liquidity risk. Liquidity risk is the risk of potential loss if we are unable to meet our funding requirements at a reasonable cost. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects parties or us.

Changes in interest rates could adversely affect our results of operations and financial condition. Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-earning assets generally reprice or mature more quickly than our interest-bearing liabilities, an increase in interest rates generally would tend to result in an increase in net interest income. Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. Additionally, a majority of our single-family real estate loans held for investment are adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable rate loans, increasing the possibility of default.

For further discussion of how changes in interest rates could impact us, see Management's Discussion and Analysis of Financial Condition and Results of Operations-Risk Management-Interest Rate Risk Management.

Prepayments of loans may negatively impact our business. Generally, our customers may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within our customers' discretion. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us. From time to time, we may be named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, we are exposed to a high level of potential litigation related to our businesses and operations. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case. As a result, a judgment against us in any such litigation could have a material adverse effect on our financial condition and results of operation.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

We are subject to reputational risk. We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party

service providers, and others, with whom we conduct business or potential future business. Our actual or perceived failure to (a) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (b) meet legal and regulatory requirements applicable to the Bank and to the Company; (c) maintain the privacy of customer and accompanying personal information; (d) maintain adequate record keeping; (e) engage in proper sales and trading practices; and (f) identify the legal, reputational, credit, liquidity and market risks inherent in our products could give rise to reputational risk that could cause harm to the Bank and our business prospects. If we fail to address any of these issues in an appropriate manner, we could be subject to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Our ability to attract and retain customers and employees could be adversely affected to the extent our reputation is damaged.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures



designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control, or “OFAC,” that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

Historically low interest rates may adversely affect our net interest income and profitability. During the past six years it has been the policy of the Board of Governors of the Federal Reserve System (“Federal Reserve Board”) to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at lower levels than available prior to 2008. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has resulted in increases in net interest income as interest rates decreased. However, our ability to lower our interest expense is limited at these interest rate levels while the average yield on our interest-earning assets may continue to decrease. The Board of Governors of the Federal Reserve System has recently indicated its intention to increase short term rates. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may be adversely affected and may even decrease, which may have an adverse effect on our profitability.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses in our loan portfolio, resulting in additions to our allowance. Our allowance for loan losses was 0.94% of total loans at December 31, 2014. Material additions to our allowance could materially decrease our net income. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

We may be unable to attract and retain key personnel. Our success depends, in large part, on our ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We rely on other companies to provide key components of our business infrastructure. Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

We are subject to extensive regulatory oversight. We are subject to extensive supervision, regulation, and examination by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Massachusetts Division of Banks.

As a result, we are limited in the manner in which we conduct our business, undertake new investments and activities, and obtain financing. This regulatory structure is designed primarily for the protection of the Deposit Insurance Fund of the FDIC, the Depositor's Insurance Fund of Massachusetts, and our depositors, and not to benefit our stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement actions and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets, the establishment of adequate loan loss reserves for regulatory purposes and the timing and amounts of assessments and fees.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, CRA laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

Financial reform legislation enacted in 2010 has, among other things, tightened capital standards and resulted in new laws and regulations that are expected to increase our costs of operations. The Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in 2010. This law is significantly changing the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act

requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impacts of the Dodd-Frank Act remain unknown for many months or years.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than \$10 billion in assets. Banks with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakened the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. The Dodd-Frank Act required minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities and certain collateralized debt obligations.

A provision of the Dodd-Frank Act eliminated, as of July 21, 2011, the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2009. The legislation also increased the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directs the Federal Deposit Insurance Corporation to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

We expect that current and future rules and regulations promulgated pursuant to the Dodd-Frank Act will increase our operating and compliance costs and could increase our interest expense.

Legislative or regulatory responses to perceived financial and market problems could impair our rights against borrowers. Federal, state and local laws and policies could reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans, and may limit the ability of lenders to foreclose on mortgage collateral. Restrictions on Chicopee Savings Bank's rights as creditor could result in increased credit losses on our loans and mortgage-backed securities, or increased expense in pursuing our remedies as a creditor.

Strong competition within our market area could hurt our profits and slow growth. We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. As of June 30, 2014, we held 4.87% of the deposits in Hampden County, which was the 8th largest market share of deposits out of the 19 financial institutions in the county. This data does not include deposits held by one of our primary competitors, credit unions, which, as tax-exempt organizations, are able to offer higher rates on retail deposits than banks. There are 15 credit unions headquartered in Hampden County, some of the larger of which are headquartered in Chicopee, Massachusetts. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we

do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

We must adapt to information technology changes in the financial services industry, which could present operational issues, require significant capital spending, or impact our reputation. The financial services industry is constantly undergoing technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend,

in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

Systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations. We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite instituted safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by customers and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, networks and our customers' devices may be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, the theft of customer assets through fraudulent transactions or disruption of our or our customers' or other third parties' business operations. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

The market value of wealth management assets under administration may be negatively affected by changes in economic and market conditions. A substantial portion of income from fiduciary services is dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

We are a holding company and dependent upon our subsidiaries for dividends, distributions and other payments. We are a legal entity separate and distinct from our subsidiaries. Our revenue (on a parent-only basis) is derived primarily from interest and dividends paid to us by the Bank. Our right, and consequently the right of our shareholders, to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors), except to the extent that certain claims of us in a creditor capacity may be recognized.

#### Item 1B. Unresolved Staff Comments.

Not applicable.

#### Item 2. Properties.

We conduct our business through our main office in Chicopee, Massachusetts, eight full service branch offices and our lending and operation center. Of our nine locations, we own six and lease three of the buildings. We also own the land for five of the six buildings we own. For one of our branches we own the building and lease the land. The net

book value of our land, buildings, and improvements was \$6.4 million at December 31, 2014. The following table sets forth ownership and lease information for the Company's offices as of December 31, 2014:

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	Location	Year Opened	Lease Expires
Owned	Main Office:		
	70 Center Street Chicopee, MA 01013	1973	
	Branch Offices:		
	39 Morgan Road West Springfield, MA 01089	2005	
	569 East Street Chicopee, MA 01020	1976	
	435 Burnett Road Chicopee, MA 01020	1990	
	219/229 Exchange Street Chicopee, MA 01013	2009/1998	
Leased	599 Memorial Drive Chicopee, MA 01020	1977	2017
	477A Center Street Ludlow, MA 01056	2002	2022
	350 Palmer Road Ware, MA 01082	2009	2027
	32 Willimansett Street South Hadley, MA 01075	2008	2027 (1)

(1) The lease is for the land only, the building is owned by Chicopee Savings Bank.

## Item 3. Legal Proceedings.

Periodically, we are involved in routine litigation incidental to our business, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

## Item 4. Mine Safety Disclosures.

Not applicable.

## PART II

## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the NASDAQ Global Market ("NASDAQ") under the symbol "CBNK." The following table sets forth the high and low closing prices of the common stock and dividends declared for the years ended December 31, 2014 and 2013, as reported by NASDAQ. The Company did not pay any dividend to shareholders during the year ended December 31, 2012. The first quarterly dividend declared by the Company was announced on January 24, 2013. The Company currently anticipates that comparable cash dividends will continue to be paid in the future.

	High	Low	Dividends Declared		High	Low	Dividends Declared
2014				2013			
First Quarter	\$ 17.88	\$ 16.89	\$ 0.07	First Quarter	\$ 17.05	\$ 15.43	\$ 0.05
Second Quarter	17.69	16.46	0.07	Second Quarter	18.27	16.73	0.05
Third Quarter	16.85	14.81	0.07	Third Quarter	19.72	17.10	0.05
Fourth Quarter	16.95	13.80	0.07	Fourth Quarter	18.19	17.31	0.05

The Company's ability to pay dividends is dependent on dividends received from Chicopee Savings Bank and its other subsidiaries. For a discussion of restrictions on the payment of cash dividends by Chicopee Savings Bank, see "Business—Regulation and Supervision—Massachusetts Banking Laws and Supervision—Dividends" in this Annual Report or Form 10-K.





## Stock Performance Graph

The following graph illustrates the annual percentage change in the cumulative total shareholder return of the Company's common stock for the period December 31, 2009 through December 31, 2014. For purposes of comparison, the graph illustrates comparable shareholder returns of the SNL Thrift \$500M – \$1B Bank Index and the NASDAQ Stock Index (U.S. Companies). The graph assumes a \$100 investment on December 31, 2009 in each case and measures the amount by which the market value, assuming reinvestment of dividends, has changed as of December 31, 2014.

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Chicopee Bancorp, Inc.	100.00	101.36	112.98	127.32	141.16	138.10
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Thrift \$500M - \$1B	100.00	109.75	103.58	131.04	161.06	187.92

## Shareholders and Issuer Purchases of Equity Securities

As of March 10, 2015, the Company had approximately 583 registered holders of record of the Company's common stock.

The following table provides information regarding the Company's purchase of its equity securities during the three months ended December 31, 2014.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
10/01/2014-10/31/2014	—	\$—	171,269	100,731
11/01/2014-11/30/2014	40,000	16.30	211,269	60,731
12/01/2014-12/31/2014	—	—	211,269	60,731
Total	40,000	\$16.30	211,269	60,731

On June 1, 2012, the Company announced that the Board of Directors authorized a common stock repurchase program (the "Plan"). The Plan allows for the repurchase of up to 272,000, or approximately 5.0%, of the Company's outstanding common stock. This program is expected to continue until the authorized number of shares is repurchased, or the Company's board of directors terminate the program. There is no specified expiration date of the Plan. The Company intends to repurchase its shares from time to time at prevailing prices in the open market, in block transactions or in privately negotiated transactions. Repurchases will be made under rule 10b-5(1) repurchase plans. The repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes. As of December 31, 2014, the Company repurchased 211,269 shares at an average price of \$16.21, or 77.7%, of the Plan's total allotment. A total of 60,731 shares may yet be purchased under the Plan.

## Item 6. Selected Financial Data.

We have derived the following selected consolidated financial and other data of the Company in part from our consolidated financial statements and notes appearing elsewhere in this Form 10-K.

	At or for the year ended December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
Selected Financial Data:					
Total assets	\$639,222	\$587,727	\$599,982	\$616,306	\$573,704
Cash and cash equivalents	49,769	18,915	39,608	61,122	35,873
Loans	523,740	489,292	468,658	447,126	433,793
Allowance for loan losses	4,927	4,596	4,364	4,576	4,431
Available-for-sale securities	414	602	621	613	362
Held-to-maturity securities	33,747	48,606	59,568	73,852	69,713

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Deposits	483,558	449,766	466,177	453,377	391,937	
Federal Home Loan Bank advances	67,039	44,992	33,332	59,265	71,915	
Stockholders' equity	88,134	92,230	89,969	90,782	91,882	
Nonperforming assets	12,243	7,241	4,559	5,624	6,756	
Selected Operating Data:						
Interest and dividend income	\$23,354	\$23,069	\$24,397	\$24,850	\$24,857	
Interest expense	3,683	4,349	5,627	6,902	8,016	
Net interest and dividend income	19,671	18,720	18,770	17,948	16,841	
Provision for loan losses	5,271	425	442	842	1,223	
Net interest income after provision for loan losses	14,400	18,295	18,328	17,106	15,618	
Non-interest income	2,817	3,100	3,023	2,650	2,626	
Non-interest expense	18,900	18,155	18,305	18,734	18,009	
Income (loss) before provision for income taxes	(1,683	) 3,240	3,046	1,022	235	
Income tax expense (benefit)	(1,105	) 687	581	(78	) (230	)
Net income (loss)	\$(578	) \$2,553	\$2,465	\$1,100	\$465	
Basic earnings (loss) per share	\$(0.12	) \$0.51	\$0.49	\$0.21	\$0.08	
Diluted earnings (loss) per share	\$(0.12	) \$0.50	\$0.48	\$0.21	\$0.08	

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	At or For the Years Ended December 31,					
	2014	2013	2012	2011	2010	
Selected Operating Ratios and Other Data:						
Performance Ratios:						
Average yield on interest-earning assets (1)	4.30	% 4.39	% 4.55	% 4.73	% 4.96	%
Average rate paid on interest-bearing liabilities	0.88	% 1.04	% 1.27	% 1.57	% 1.91	%
Average interest rate spread (2)	3.42	% 3.35	% 3.28	% 3.16	% 3.05	%
Net interest margin (3)	3.65	% 3.60	% 3.54	% 3.47	% 3.40	%
Ratio of interest-earning assets to interest-bearing liabilities	134.79	% 132.02	% 126.51	% 124.18	% 122.61	%
Non-interest expenses as a percent of average assets	3.13	% 3.10	% 3.06	% 3.21	% 3.24	%
Return on average assets	(0.10)	)% 0.44	% 0.41	% 0.19	% 0.08	%
Return on average equity	(0.64)	)% 2.79	% 2.75	% 1.20	% 0.49	%
Ratio of average equity to average assets	15.01	% 15.58	% 15.02	% 15.72	% 17.04	%
Efficiency ratio (4)	80.09	% 79.00	% 79.43	% 88.06	% 91.59	%
Regulatory Capital Ratios:						
Total risk-based capital ratio	17.5	% 19.6	% 19.3	% 19.6	% 20.7	%
Tier 1 risk-based capital ratio	16.5	% 18.6	% 18.4	% 18.7	% 19.7	%
Tier 1 leverage capital ratio	13.8	% 15.8	% 15.0	% 14.8	% 16.1	%
Asset Quality Ratios:						
Nonperforming loans as a percent of total loans	2.14	% 1.40	% 0.85	% 1.05	% 1.49	%
Nonperforming assets as a percent of total assets	1.92	% 1.23	% 0.76	% 0.91	% 1.18	%
Allowance for loan losses as a percent of total loans	0.94	% 0.94	% 0.93	% 1.02	% 1.02	%
Allowance for loan losses as a percent of nonperforming loans	44.02	% 67.25	% 109.46	% 97.13	% 68.49	%
Net loans charged-off to average interest-earning loans	0.98	% 0.04	% 0.14	% 0.16	% 0.20	%
Other Data:						
Banking offices at end of year	9	9	9	9	8	

- Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of
- (1) 41%. The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the income statement.
  - (2) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
  - (3) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.
  - (4) The efficiency ratio represents the ratio of non-interest expenses divided by the sum of tax equivalent net interest income and non-interest income. This ratio excludes gains (losses) on sales of investment securities, property, loans held for sale and other, net. At December 31, 2014 the ratio is calculated as follows (in thousands):

Non-interest expenses	\$18,900
Tax equivalent net interest income	\$20,689
Non-interest income	2,817
Add back:	

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Net gain on sale of securities	(34	)
Loss and writedowns on sale of other real estate owned	125	
Total income included in calculation	\$23,597	
Non-interest expenses divided by total income	80.09	%

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the "Selected Financial Data" and the Company's Consolidated Financial Statements and notes thereto, each appearing elsewhere in this Annual Report on Form 10-K.

### Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain.

By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. In addition to these risk factors, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to: (1) changes in consumer spending, borrowing and savings habits; (2) the financial health of certain entities, including government sponsored enterprises, the securities of which are owned or acquired by the Company; (3) adverse changes in the securities market; and (4) the costs, effects and outcomes of existing or future litigation. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

### Overview

**Income.** The Company's primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and securities, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges fees and commissions, which include service charges on deposit accounts, brokerage fee income and other loan fees (including loan brokerage fees and late charges), income from bank-owned life insurance and income from loan sales and servicing. In addition, we recognize income or losses from the sale of available-for-sale securities in years that we have such sales.

**Allowance for Loan Losses.** The allowance for loan losses is a valuation allowance to cover the inherent probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, information about specific borrower situations, estimated collateral values, economic conditions, and other factors. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

**Expenses.** The non-interest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, furniture and equipment expenses, data processing expenses, foreclosure related

expenses, professional fees, advertising expense, FDIC insurance expense, stationery, supplies and postage expense, and various other miscellaneous expenses.

#### Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies:

**Allowance for Loan Losses.** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on management's evaluation of the level of the allowance required in relation to the probable loss exposure in the loan portfolio. The allowance for loan losses is



evaluated on a regular basis by management. Qualitative factors, or risks considered in evaluating the adequacy of the allowance for loan losses for all loan classes include historical loss experience; levels and trends in delinquencies, nonaccrual loans, impaired loans and net charge-offs; the character and size of the loan portfolio; effects of any changes in underwriting policies; experience of management and staff; current economic conditions and their effect on borrowers; effects of changes in credit concentrations, and management's estimation of probable losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, special mention, or loss. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

Loans individually considered for impairment include all loans included in the class of commercial and residential, as well as home equity loans. These are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, except for home equity loans.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, our banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

**Valuation of OREO.** In connection with the determination of the carrying value of other real estate owned ("OREO") management obtains independent appraisals for significant properties. While management uses available information to recognize losses on OREO, future write-downs of OREO may be necessary based upon changes in economic and market conditions.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's valuation of its OREO. Such agencies may require the Company to recognize write-downs of OREO based upon their judgment about information available to them at the time of their examination.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

Mortgage Servicing Rights. Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. Mortgage servicing rights are amortized into non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial

assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The value of the capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of fair value. Impairment, if any, is recognized through a valuation allowance and is recorded as a component of non-interest expense.

Other-Than-Temporary Impairment. “Accounting for Certain Investments in Debt and Equity Securities,” “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Benefits,” and “Noncurrent Marketable Equity Securities,” require companies to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company’s intent and ability to hold the security. Pursuant to these requirements, we assess valuation declines to determine the extent to which such changes are attributable to (1) fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or (2) market-related factors, such as interest rates or equity market declines. Declines in the fair value of securities below their costs that are deemed to be other than temporary are recorded in earnings as realized losses. For declines in the fair value of individual debt available-for-sale securities below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors is recognized in other comprehensive income or loss. Credit loss is determined to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the difference between the security’s cost basis and its fair value at the balance sheet date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

### Operating Strategy

Our mission is to operate and grow a profitable community-oriented financial institution serving primarily retail customers and businesses in our market areas. We plan to continue our strategy of:

- increasing our overall commercial relationships, as well as broadening individual commercial relationships, in our market area;
- increasing our deposit market share in our market area;
- increasing our sale of non-deposit investment products;
- improving operating efficiency and cost control; and
- applying disciplined underwriting practices to maintain a high quality loan portfolio.

Continuing to increase our commercial relationships in our market area. We have diversified our loan portfolio beyond residential loans by increasing our commercial relationships. Our goal is to increase the number of our commercial customers, while also broadening individual relationships. Our commercial real estate, commercial construction and commercial and industrial loan portfolio has increased \$98.2 million, or 37.5%, from \$261.6 million, or 62.5% of the total loan portfolio, at December 31, 2010 to \$359.7 million, or 68.7% of the total loan portfolio, at December 31, 2014. Business deposit accounts have increased \$26.8 million, or 33.7%, from \$52.7 million at December 31, 2010 to \$79.5 million at December 31, 2014. In order to support the growth in the commercial loan portfolio, we have also increased the number of commercial lenders and commercial underwriting and support staff.

Increasing our deposit market share in our market area. Retail deposits are our primary source of funds for investing and lending. By offering a variety of deposit products, special and tiered pricing, and superior customer service, we intend to retain and expand existing customer relationships as well as attract new deposit customers. Personalized service and flexibility with

regard to customer needs will continue to be augmented with a full array of delivery channels to maximize customer convenience. These include drive-up banking, ATMs, internet banking, automated bill payment, remote capture, and telephone banking. Through our continued focus on these deposit-gathering efforts in existing branch locations, couple with our plans for geographic expansion, we expect to increase the overall level of deposits and our market share in the markets we serve.

In addition, historically, one of our primary competitors for retail deposits in the Chicopee market area has been credit unions. Credit unions are formidable competitors since, as tax-exempt organizations, they are able to offer higher rates on retail deposits than banks. By expanding our market area beyond the immediate Chicopee market area, and beyond the market areas of our larger credit union competitors, we intend to increase our overall deposit market share of Hampden County.

Increasing our sale of non-deposit investment products. Our profits rely heavily on the spread between the interest earned on loans and securities and interest paid on deposits and borrowings. In order to decrease our reliance on interest rate spread income, we have pursued initiatives to increase non-interest income. We offer non-deposit investment products, including mutual funds, annuities, pension plans, life insurance, long-term care and 529 college savings plans through a third party registered broker-dealer, Linsco/Private Ledger. This initiative generated \$374,000, \$320,000 and \$312,000 of non-interest income during the years ended December 31, 2014, 2013, and 2012, respectively.

Improving operating efficiency and cost control. Non-interest expense increased \$745,000, or 4.1%, from \$18.2 million, or 3.10% of average total assets, at December 31, 2013 to \$18.9 million, or 3.13% of average total assets, at December 31, 2014. The increase in non-interest expenses was largely due to the increase in foreclosure related expenses of \$339,000, or 218.7%, an increase in professional fees of \$291,000, or 44.6%, an increase in FDIC insurance premium fees of \$193,000, or 83.5%, and an increase in data processing expense of \$146,000, or 11.7%. We recognize that our growth strategies have required greater investments in personnel, marketing, premises and equipment which have had a negative impact on our expense ratio over the short term. Our non-interest expenses are also impacted as a result of the financial, accounting, legal and compliance and other additional expenses usually associated with operating as a public company. We will also recognize additional annual employee compensation and benefit expenses stemming from our employee stock ownership plan and stock options. These additional expenses adversely affect our profitability. We recognize expenses for our employee stock ownership plan when shares are committed to be released to participants' accounts and recognize expenses for stock options over the vesting period of awards made to recipients pursuant to our 2007 Equity Incentive Plan.

Applying disciplined underwriting practices to maintain a high quality loan portfolio. We believe that high asset quality is a key to long-term financial success. We have sought to grow and diversify the loan portfolio, while maintaining a high level of asset quality and moderate credit risk, using underwriting standards that we believe are conservative and diligent monitoring and collection efforts. At December 31, 2014, our ratio of nonperforming loans (loans which are 90 or more days delinquent) to total loans was 2.14% of our total loan portfolio, compared to 1.40% at December 31, 2013. Although we intend to continue our efforts to originate commercial real estate, commercial business and construction loans, we intend to continue our philosophy of managing large loan exposures through our conservative approach to lending.

## Balance Sheet Analysis

### Comparison of Financial Condition at December 31, 2014 and December 31, 2013

Total Assets. Total assets increased \$51.5 million, or 8.8%, from \$587.7 million at December 31, 2013 to \$639.2 million at December 31, 2014. The increase in total assets was primarily due to the increase in net loans of \$34.1

million, or 7.0%, from \$485.6 million, or 82.6% of total assets, at December 31, 2013 to \$519.8 million, or 81.3% of total assets, at December 31, 2014 and the increase in cash and cash equivalents of \$30.9 million, or 163.1%, to \$49.8 million at December 31, 2014. These increases were partially offset by the \$15.0 million or 30.6%, decrease in investments to \$34.2 million at December 31, 2014.

**Cash and Cash Equivalents.** Cash, including correspondent bank balances and federal funds sold, increased \$30.9 million, or 163.1%, from \$18.9 million at December 31, 2013 to \$49.8 million at December 31, 2014.

**Investments.** The investment securities portfolio, including held-to-maturity and available-for-sale securities, decreased \$15.0 million, or 30.6%, from \$49.2 million at December 31, 2013 to \$34.2 million at December 31, 2014. The decrease in investments was primarily due to the \$5.0 million, or 100.0%, decrease in the U.S. Treasury portfolio, a decrease of \$8.4 million, or 100.0%, in certificates of deposit, a decrease of \$242,000, or 37.5%, in collateralized mortgage obligations, a decrease of \$188,000, or 31.2%, in securities available-for-sale and a decrease of \$1.2 million, or 3.6%, in tax-exempt industrial revenue bonds.

**Total Loans.** Total loans at December 31, 2014 increased \$34.4 million, or 7.0%, from \$489.3 million, or 83.3% of total assets, at December 31, 2013 to \$523.7 million, or 81.9% of total assets. The increase in total loans was due to the increase in commercial real estate loans of \$38.5 million, or 18.2%, to \$249.6 million, an increase in residential construction loans of \$2.0 million, or 32.6%, to \$8.1

million, an increase of \$2.4 million, or 7.5%, in home equity loans to \$34.5 million, and an increase in one- to four-family loans of \$6.2 million, or 5.5%, to \$118.7 million. These increases were partially offset by a decrease in commercial construction loans of \$2.7 million, or 6.9%, to \$35.8 million, and a decrease in commercial and industrial loans of \$12.2 million, or 14.1%, to \$74.3 million. In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. For the year ended December 31, 2014, the Company sold \$4.7 million in low coupon residential real estate loans and currently services \$91.3 million in loans sold to the secondary market. In order to service our customers, the servicing rights will continue to be retained on all loans written and sold in the secondary market.

**Deposits and Borrowed Funds.** Total deposits increased \$33.8 million, or 7.5%, from \$449.8 million at December 31, 2013 to \$483.6 million at December 31, 2014. Core deposits, defined as savings accounts, money market accounts, demand deposit accounts and NOW accounts, increased \$19.4 million, or 6.6%, from \$292.5 million at December 31, 2013 to \$311.9 million at December 31, 2014. Money market accounts increased \$10.0 million, or 9.0%, to \$121.1 million, demand deposits increased \$7.1 million, or 7.8%, to \$97.9 million, savings accounts increased \$1.0 million, or 1.9%, to \$50.7 million, and NOW accounts increased \$1.4 million, or 3.4%, to \$42.2 million. Certificates of deposit increased \$14.4 million, or 9.2%, from \$157.2 million at December 31, 2013 to \$171.6 million at December 31, 2014. FHLB advances increased \$22.0 million, or 49.0%, from \$45.0 million at December 31, 2013 to \$67.0 million at December 31, 2014. FHLB advances increased to fund the \$34.4 million, or 7.0%, loan growth over the same period.

**Total Stockholders' Equity.** Stockholders' equity was \$88.1 million, or 13.8% of total assets, at December 31, 2014 compared to \$92.2 million, or 15.7% of total assets, at December 31, 2013. The Company's stockholders' equity decreased as a result of the \$578,000 net loss for the year ended December 31, 2014 and the \$1.4 million cash dividend paid during the year ended December 31, 2014, partially offset by an increase of \$303,000, or 8.5%, in stock-based compensation, and an increase of \$296,000, or 9.0%, in additional paid-in-capital. In addition, during the year ended December 31, 2014, the Company repurchased 174,915 shares of the Company stock at a cost of \$2.9 million, or \$16.36 average price per share and released 9,700 shares to fund employee stock options exercises. The Company's book value per share decreased by \$0.25, or 1.5%, from \$16.97 at December 31, 2013 to \$16.72 at December 31, 2014. The decrease in the book value was primarily due to the \$578,000 net loss and the cash dividend payment of \$1.4 million, or \$0.28 per share, made during the year ended December 31, 2014.

**Loans.** Our primary lending activity is the origination of loans secured by real estate. We originate one-to-four-family residential loans, commercial real estate loans and commercial business loans. To a lesser extent, we originate residential investment, construction and consumer loans.

Our residential real estate loan portfolio has increased from \$112.5 million, or 23.0% of total loans, at December 31, 2013 to \$118.7 million, or 22.7% of total loans, at December 31, 2014. In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company sold \$4.7 million of fixed rate, low coupon residential real estate loans originated in 2014 to the secondary market.

The commercial real estate portfolio increased \$38.5 million, or 18.2%, from \$211.2 million, or 43.1% of total loans, at December 31, 2013 to \$249.6 million, or 47.7% of total loans, at December 31, 2014 as a result of new commercial loan relationships. Commercial and industrial loans decreased \$12.2 million, or 14.1%, from \$86.5 million at December 31, 2013 to \$74.3 million at December 31, 2014 as a result of a \$2.0 million charge-off reported in the first quarter of 2014, a \$5.9 million payoff on a classified line of credit and other customer paydowns.

The construction loan portfolio decreased from \$44.6 million at December 31, 2013 to \$43.9 million at December 31, 2014. Commercial construction decreased \$2.7 million, or 6.9%, from \$38.4 million at December 31, 2013 to \$35.8 million at December 31, 2014 and residential construction increased \$2.0 million, or 32.6% to \$8.1 million.

The consumer and home equity loan portfolio increased \$2.7 million, or 7.8%, from \$34.5 million at December 31, 2013 to \$37.2 million at December 31, 2014, primarily due to the \$2.4 million, or 7.5% in Home Equity loans.



Loan Portfolio Composition. The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the respective portfolio at the dates indicated.

	At December 31,		2013		2012		2011		2010	
	2014		Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars In Thousands)										
Real estate loans										
Residential real estate	\$118,692	22.7 %	\$112,524	23.0 %	\$120,265	25.7 %	\$123,294	27.6 %	\$132,670	30.6 %
Home equity	34,508	6.6 %	32,091	6.6 %	31,731	6.8 %	29,790	6.7 %	29,933	6.9 %
Commercial	249,632	47.7 %	211,161	43.1 %	189,472	40.4 %	174,761	39.0 %	162,107	37.4 %
Total real estate loans	402,832	77.0 %	355,776	72.7 %	341,468	72.9 %	327,845	73.3 %	324,710	74.9 %
Construction loans:										
Residential	8,129	1.6 %	6,130	1.3 %	4,334	0.9 %	5,597	1.3 %	6,428	1.5 %
Commercial	35,786	6.8 %	38,441	7.9 %	35,781	7.6 %	31,706	7.0 %	26,643	6.1 %
Total construction loans	43,915	8.4 %	44,571	9.2 %	40,115	8.5 %	37,303	8.3 %	33,071	7.6 %
Total real estate and construction loans	446,747	85.4 %	400,347	81.9 %	381,583	81.4 %	365,148	81.6 %	357,781	82.5 %
Consumer	2,662	0.5 %	2,405	0.4 %	2,492	0.6 %	2,566	0.6 %	3,165	0.7 %
Commercial and industrial	74,331	14.1 %	86,540	17.7 %	84,583	18.0 %	79,412	17.8 %	72,847	16.8 %
Total loans	523,740	100.0 %	489,292	100.0 %	468,658	100.0 %	447,126	100.0 %	433,793	100.0 %
Deferred loan origination costs, net	944		923		917		921		945	
Allowance for loan losses	(4,927 )		(4,596 )		(4,364 )		(4,576 )		(4,431 )	
Loans, net	\$519,757		\$485,619		\$465,211		\$443,471		\$430,307	

Loan Maturity. The following table sets forth certain information at December 31, 2014 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Real estate mortgage loans include residential and commercial real estate loans and home equity loans.

	Real Estate Mortgage (In Thousands)	Construction	Commercial	Consumer	Total Loans
Amounts due					

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One year or less	\$2,066	\$21,966	\$48,376	\$147	\$72,555
More than one year to five years	6,499	10,882	19,582	1,692	38,655
More than five years	394,267	11,067	6,373	823	412,530
Total amount due	\$402,832	\$43,915	\$74,331	\$2,662	\$523,740

The following table sets forth the dollar amount of all loans at December 31, 2014 that are due after December 31, 2015 that have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan origination costs. Real estate loans include residential and commercial real estate loans and home equity loans.

	Due After December 31, 2015		
	Fixed	Adjustable	Total
	(In Thousands)		
Real estate loans	\$47,305	\$353,461	\$400,766
Construction	4,495	17,454	21,949
Commercial	21,749	4,206	25,955
Consumer	2,468	47	2,515
Total loans	\$76,017	\$375,168	\$451,185

Investment Securities. The investment securities portfolio consists primarily of tax-exempt industrial revenue bonds, collateralized mortgage obligations and marketable equity securities. Total investment securities decreased \$15.0 million, or 30.6%, from \$49.2 million at December 31, 2013 to \$34.2 million at December 31, 2014. The \$15.0 million decrease was primarily due to maturities in certificates of deposit of \$8.4 million, maturities of U.S. Treasury securities of \$5.0 million, paydowns of tax-exempt industrial revenue bonds of \$1.2 million, and paydowns of collateralized mortgage obligations of \$242,000.

The amortized cost of available-for-sale securities decreased \$153,000, or 29.3%, from \$522,000 at December 31, 2013 to \$369,000 at December 31, 2014, due to the sale of 10,000 shares of common stock issued by one company in the financial industry with a realized gain of \$34,000. The fair value of available-for-sale securities decreased \$188,000, or 31.2%, from \$602,000 at December 31, 2013 to \$414,000 at December 31, 2014 due to the sale of the 10,000 shares. At December 31, 2014, available-for-sale securities had a net unrealized gain of \$45,000.

Total investment securities decreased \$11.0 million, or 18.2%, from \$60.1 million at December 31, 2012 to \$49.1 million at December 31, 2013. The decrease was primarily due to maturities of U.S. Treasury securities of \$20.2 million, paydowns of tax-exempt industrial revenue bonds of \$1.1 million, \$16.2 million of maturities in certificates of deposit, and maturities of collateralized mortgage obligations of \$535,000. These decreases were partially offset by purchases of U.S. Treasury securities and certificates of deposit of \$11.5 million and \$15.5 million, respectively.

The amortized cost of available-for-sale securities decreased \$59,000, or 10.2%, from \$581,000 at December 31, 2012 to \$522,000 at December 31, 2013, due to the sale of 6,000 shares of common stock issued by one company in the financial industry with a realized gain of \$37,000. The fair value of available-for-sale securities decreased \$19,000, or 3.1%, from \$621,000 at December 31, 2012 to \$602,000 at December 31, 2013 due to the sale of the 6,000 shares. At December 31, 2013, available-for-sale securities had a net unrealized gain of \$80,000.

During 2012, the Company recorded an OTTI charge of \$37,000 relating to three securities issued by one company in the financial industry. There were no sales of available-for-sale securities during 2012.

At December 31, 2014 and 2013, there were no investments in a single company or entity (other than the U.S. Government) that had an aggregate book value in excess of 10% of our equity.

The following table sets forth, at the dates indicated, information regarding the amortized cost and market values of the Company's investment securities.

	At December 31,		2013		2012	
	Amortized	Fair	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value	Cost	Value
	(In Thousands)					
Available-for-sale securities						
Marketable equity securities <sup>1</sup>	\$369	\$414	\$522	\$602	\$581	\$621
Total available-for-sale securities	\$369	\$414	\$522	\$602	\$581	\$621
Held-to-maturity securities						
U.S. Treasury securities	\$—	\$—	\$5,000	\$5,000	\$13,691	\$13,693
Corporate and industrial revenue bonds	33,344	33,811	34,588	35,269	35,656	43,137
Certificates of deposit	—	—	8,373	8,388	9,041	9,045
Collateralized mortgage obligations	403	418	645	681	1,180	1,233
Total held-to-maturity securities:	\$33,747	\$34,229	\$48,606	\$49,338	\$59,568	\$67,108
Total investment securities	\$34,116	\$34,643	\$49,128	\$49,940	\$60,149	\$67,729

<sup>1</sup> Does not include investments in restricted stock consisting of FHLB stock of \$3.9 million at December 31, 2014 and 2013 and \$4.3 million at December 31, 2012. Investment in Banker's Bank Northeast stock of \$183,000 at December 31, 2014, 2013, and 2012 is included.

The table below sets forth the stated maturities and weighted average yields of debt securities at December 31, 2014. Weighted average yields on tax-exempt securities are not presented on a tax equivalent basis because the impact would be insignificant.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
(Dollars in Thousands)										
Held-to-maturity securities										
Industrial revenue bonds	\$—	—	\$7,883	4.25 %	\$—	—	\$25,461	4.10 %	\$33,344	4.14 %
Collateralized mortgage obligations	—	—	403	0.22 %	—	—	—	—	403	0.22 %
Total held-to-maturity securities	\$—	—	\$8,286	4.47 %	\$—	4.47 %	\$25,461	4.10 %	\$33,747	4.19 %

**Restricted Equity Securities.** At December 31, 2014 and 2013, the Company held \$3.9 million of FHLB stock. This stock is restricted and must be held as a condition of membership in the FHLB and as a condition for the Bank to borrow from the FHLB. The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2014. The Company will continue to monitor its investment in FHLB stock. For additional information regarding our FHLB stock, see Note 3 to the notes to the consolidated financial statements. At December 31, 2014 and 2013, the Company held \$183,000 of Banker's Bank Northeast stock. The stock is restricted and carried at cost. The stock is evaluated for impairment based on an estimate of the ultimate recovery to par value.

**Deposits.** Our primary source of funds are deposits, which are comprised of certificates of deposit, money market deposit accounts, demand deposits, passbook accounts, and NOW accounts. These deposits are provided primarily by individuals and businesses within our market areas. At December 31, 2014, 2013 and 2012, we did not use brokered deposits as a source of funding.

Total deposits increased \$33.8 million, or 7.5%, from \$449.8 million at December 31, 2013 to \$483.6 million at December 31, 2014. Core deposits, defined as savings accounts, money market accounts, demand deposit accounts and NOW accounts, increased \$19.4 million, or 6.6%, from \$292.5 million at December 31, 2013 to \$311.9 million at December 31, 2014. Money market accounts increased \$10.0 million, or 9.0%, to \$121.1 million, demand deposits increased \$7.1 million, or 7.8%, to \$97.9 million, savings accounts increased \$1.0 million, or 1.9%, to \$50.7 million, and NOW accounts increased \$1.4 million, or 3.4%, to \$42.2 million. Certificates of deposit increased \$14.4 million, or 9.2%, from \$157.2 million at December 31, 2013 to \$171.6 million at December 31, 2014. The increase in certificates of deposit was the result of management's focus to replace maturing high cost accounts with lower cost accounts by offering promotional rates which are lower than the accounts scheduled to reprice. Demand accounts increased due to increases in commercial accounts as well as an increase in low cost relationship focused transaction and savings accounts.

At December 31, 2013, deposits increased \$16.4 million, or 3.5%, to \$449.8 million from \$466.2 million at December 31, 2012. The increase was primarily due to increases in NOW accounts of \$4.1 million, or 11.1%, demand accounts of \$15.5 million, or 20.5% and savings accounts of \$873,000, or 1.8%. These increases were partially offset by decreases in certificates of deposit of \$20.2 million, or 11.4% and money market accounts of \$16.6 million, or 13.0%. The decrease in certificates of deposits was mainly attributed to the strategic run-off of high cost accounts as a result of management's focus to lower the cost of deposits and allow higher cost, short-term time deposits to mature without renewals. Demand accounts increased due to increases in municipal and commercial accounts as well as an increase in low cost relationship focused transaction and savings accounts.

The following table sets forth the distribution of the Company's deposit accounts as of the dates indicated.

	December 31,		
	2014	2013	2012
	(In Thousands)		
Demand deposits	\$97,922	\$90,869	\$75,407
NOW accounts	42,177	40,774	36,711
Savings accounts	50,716	49,755	48,882
Money market deposit accounts	121,106	111,126	127,730
Certificates of deposit	171,637	157,242	177,447
Total deposits	\$483,558	\$449,766	\$466,177

The following table sets forth certificates of deposit of the Company classified by interest rate as of the dates indicated:

	December 31,		
	2014	2013	2012
	(In Thousands)		
Interest rate			
Less than 1.0%	\$43,091	\$66,675	\$64,651
1.00% to 1.99%	96,362	32,466	29,669
2.00% to 2.99%	19,876	29,669	38,082
3.00% to 3.99%	12,308	28,432	35,183
4.00% to 4.99%	—	—	9,862
Total certificates of deposit	\$171,637	\$157,242	\$177,447

The following table sets forth maturities of certificates of deposit by year of maturity and interest rate as of December 31, 2014:

	2015	2016	2017	2018	2019	Total
	(In Thousands)					
Interest rate						
Less than 1.0%	\$37,547	\$4,657	\$882	\$5	\$—	\$43,091
1.00% to 1.99%	43,661	21,754	11,400	12,719	6,828	96,362
2.00% to 2.99%	10,514	8,098	—	1,264	—	\$19,876
3.00% to 3.99%	12,308	—	—	—	—	12,308
Total certificates of deposit	\$104,030	\$34,509	\$12,282	\$13,988	\$6,828	\$171,637

As of December 31, 2014, the aggregate amount of outstanding certificates of deposits in amounts greater than or equal to \$100,000 was \$88.2 million, or 51.4%, of total certificates of deposits. The following table sets forth the maturity of those certificates of deposits as of December 31, 2014:

Maturity Period	Amount	Weighted Average Rate	
	(Dollars in Thousands)		
Three months or less	\$9,040	0.89	%
Over three months through six months	18,267	0.99	%

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Over six months through 12 months	26,636	1.83	%
Over 12 months	34,270	1.41	%
Total certificates of deposit greater than or equal to \$100,000:	\$88,213	1.40	%

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Borrowings. The Company utilizes borrowings from a variety of sources to supplement our supply of funds for loans and investments.

	Years Ended December 31,			
	2014	2013	2012	
	(Dollars in Thousands)			
Maximum amount of advances outstanding at any month-end during the year:				
FHLB advances	\$67,039	\$44,992	\$58,308	
Securities sold under agreements to repurchase	—	15,312	12,982	
Average advances outstanding during the year:				
FHLB advances	\$57,182	\$29,202	\$46,907	
Securities sold under agreements to repurchase	—	7,243	9,027	
Weighted average interest rate during the year:				
FHLB advances	1.59	% 2.41	% 2.56	%
Securities sold under agreements to repurchase	—	% 0.12	% 0.14	%
Balance outstanding at end of year:				
FHLB advances	\$67,039	\$44,992	\$33,332	
Securities sold under agreements to repurchase	—	—	—	
Weighted average interest rate at end of year:				
FHLB advances	1.43	% 1.93	% 2.39	%
Securities sold under agreements to repurchase	—	% —	% 0.12	%

FHLB advances increased \$22.0 million, or 49.0%, to \$67.0 million at December 31, 2014 from \$45.0 million at December 31, 2013. The increase was due to long-term advances of \$33.0 million to fund loan growth and minimize interest rate risk, partially offset by paydowns of long-term advances of \$11.0 million.

FHLB advances increased \$11.7 million, or 35.0%, to \$45.0 million at December 31, 2013 from \$33.3 million at December 31, 2012. The increase was due to long-term advances of \$21.0 million to fund loan growth and minimize interest rate risk, partially offset by pay downs of long-term advances of \$9.3 million.

At December 31, 2013, securities sold under agreements to repurchase decreased to zero from \$9.8 million at December 31, 2012. At December 31, 2014, securities sold under agreements to repurchase were zero and all agreements were terminated in October of 2013.

At December 31, 2014, the Company had an Ideal Way Line of Credit with the FHLB of \$2.0 million and the ability to borrow a total of \$44.5 million with the Federal Reserve Bank of Boston's discount window. In addition, we had the ability to borrow a total of \$4.0 million from Banker's Bank Northeast. As of December 31, 2014, the Company did not utilize any of these contingency funding sources.

#### Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

Average Balance Sheet. The following table sets forth information relating to the Company for the years ended December 31, 2014, 2013 and 2012. The average yields and costs are derived by dividing interest income or interest expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods

shown. Average balances are derived from average daily balances. The yields include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

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Average Balance, Interest and Yield/Rate Analysis

December 31,

2014

2013

2012

(Dollars in Thousands)	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:									
Investments (1)	\$42,005	\$2,607	6.21 %	\$64,405	\$2,754	4.28 %	\$68,257	\$2,721	3.99 %
Loans:									
Residential real estate loans	115,791	4,483	3.87 %	115,402	4,717	4.09 %	123,102	5,547	4.51 %
Home equity loans	32,470	1,124	3.46 %	31,840	1,151	3.61 %	30,744	1,191	3.87 %
Commercial real estate loans	223,988	10,635	4.75 %	187,751	9,840	5.24 %	179,564	10,122	5.64 %
Residential construction loans	7,477	299	4.00 %	4,778	198	4.14 %	5,208	226	4.34 %
Commercial construction loans	42,550	1,762	4.14 %	34,824	1,574	4.52 %	38,089	1,874	4.92 %
Consumer loans	2,497	160	6.41 %	2,376	156	6.57 %	2,553	172	6.74 %
Commercial and industrial loans	81,789	3,261	3.99 %	87,190	3,688	4.23 %	81,566	3,518	4.31 %
Loans, net (2)	506,562	21,724	4.29 %	464,161	21,324	4.59 %	460,826	22,649	4.91 %
Other	17,602	41	0.23 %	21,069	55	0.26 %	29,664	64	0.22 %
Total interest-earning assets	566,169	24,372	4.30 %	549,635	24,133	4.39 %	558,747	25,434	4.55 %
Noninterest-earning assets	42,037			41,307			44,665		
Less: Allowance for loan losses	(4,685 )			(4,362 )			(4,501 )		
Total assets	\$603,521			\$586,580			\$598,911		
Interest-bearing liabilities:									
Deposits:									
Money market deposit accounts	\$113,205	\$339	0.30 %	\$120,405	\$378	0.31 %	\$109,168	\$358	0.33 %
Savings accounts (3)	50,341	52	0.10 %	49,851	52	0.10 %	48,679	51	0.10 %
NOW accounts	41,761	322	0.77 %	39,435	371	0.94 %	31,401	322	1.03 %
Certificates of deposit	157,564	2,060	1.31 %	170,195	2,834	1.67 %	196,491	3,681	1.87 %
Total interest-bearing deposits	362,871	2,773	0.76 %	379,886	3,635	0.96 %	385,739	4,412	1.14 %
Total interest-bearing borrowings:									
FHLB advances	57,182	910	1.59 %	29,202	705	2.41 %	46,907	1,202	2.56 %
	—	—	—	7,243	9	0.12 %	9,027	13	0.14 %

Securities sold under  
agreement to  
repurchase

Total interest-bearing borrowings	57,182	910	1.59	%	36,445	714	1.96	%	55,934	1,215	2.17	%
Total interest-bearing liabilities:	420,053	3,683	0.88	%	416,331	4,349	1.04	%	441,673	5,627	1.27	%
Demand deposits	92,347				77,949				66,840			
Other noninterest-bearing liabilities	546				887				464			
Total liabilities	512,946				495,167				508,977			
Total stockholders' equity	90,575				91,413				89,934			
Total liabilities and stockholders' equity	\$603,521				\$586,580				\$598,911			
Net interest-earning assets	\$146,116				\$133,304				\$117,074			

Net interest income  
(fully-taxable  
equivalent)

	20,689				19,784				19,807			
Less: tax equivalent adjustment (1)	(1,018 )				(1,064 )				(1,037 )			
Net interest income	\$19,671				\$18,720				\$18,770			
Net interest rate spread (fully-taxable equivalent) (4)			3.42	%			3.35	%			3.28	%
Net interest margin (fully-taxable equivalent) (5)			3.65	%			3.60	%			3.54	%
Ratio of interest-earning assets to interest-bearing liabilities			134.79	%			132.02	%			126.51	%

- (1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%.  
The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the statement of operations. See 'Explanation of Use of Non-GAAP Financial Measurements'.
- (2) Loans, net excludes loans held for sale and the allowance for loan losses and includes nonperforming loans.
- (3) Savings accounts include mortgagors' escrow deposits.
- (4) Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities  
Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.
- (5) interest-earning assets.

Rate/Volume Analysis. The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31, 2014 Compared to December 31, 2013 Increase (Decrease) Due to			Year Ended December 31, 2013 Compared to December 31, 2012 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	\$(1,146	) \$999	\$(147	) \$(159	) \$192	\$33
Loans:						
Residential real estate	16	(250	) (234	) (407	) (491	) (898
Home equity	23	(50	) (27	) 42	(80	) (38
Commercial real estate	1,779	(984	) 795	396	(611	) (215
Residential construction	108	(7	) 101	(18	) (10	) (28
Commercial construction	328	(140	) 188	(154	) (146	) (300
Consumer	8	(4	) 4	(10	) (6	) (16
Commercial and industrial	(221	) (206	) (427	) 239	(69	) 170
Total loans	2,041	(1,641	) 400	88	(1,413	) (1,325
Other	(8	) (6	) (14	) (21	) 12	(9
Total interest-earning assets	\$887	\$(648	) \$239	\$(92	) \$(1,209	) \$(1,301
Interest-bearing liabilities:						
Deposits:						
Money market deposit accounts	\$(23	) \$(16	) \$(39	) \$36	\$(16	) \$20
Savings accounts (1)	—	—	—	1	—	1

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NOW accounts	21	(70	) (49	) 77	(28	) 49	
Certificates of deposit	(198	) (576	) (774	) (463	) (384	) (847	)
Total interest-bearing	(200	) (662	) (862	) (349	) (428	) (777	)
deposits							
FHLB advances							